

September 11, 2024

Vankon Modular Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based cash credit	10.00	10.00	[ICRA]BB+ (Stable); reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating favourably factors in the financial and operational benefits that Vankon Modular Private Limited (VMPL) derives from its strong parentage of Veto Switchgears and Cables Limited (VSCL) and a wide network of dealers and distributors that ensures efficient sales and distribution. As a subsidiary of VSCL, the company derives operational synergies in terms of a common management, better pricing on raw material procurement, better realisation for its sales and access to advances from parent and Group companies.

ICRA further notes VMPL's outstanding debt comprising loans from its parent and the lower levels of utilisation as on March 31, 2024, resulting in moderate coverage and debt protection metrics indicators. However, the comfortable capital structure at VSCL's consolidated level with healthy net worth and limited reliance on external debt provides comfort to some extent.

The rating is, however, constrained by the company's moderate scale and working capital-intensive nature of operations on account of the high inventory and receivables position. The company's profit margin profile is also exposed to the volatility in the prices of key raw materials, including copper. Any significant scale-up of the business operations by the company may result in an incremental requirement of external debt in the form of working capital borrowings or unsecured loans, thus adversely impacting its financial profile and further moderating the debt protection metrics.

The rating also factors in the exposure of the company to intense competition from both organised as well as unorganised players in the wires and cables business, which leads to pricing pressure for all industry participants, including VMPL.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that VMPL's operations, sales turnover and profitability would remain stable by virtue of it being a subsidiary of VSCL along with its strong distribution channel.

Key rating drivers and their description

Credit strengths

Wide range of products resulting in revenue diversity – VSCL has been involved in the manufacturing of wires and cables (standard cables, telephone and co-axial wires) and electrical accessories (general switches, modular switches, extension cord, isolator boxes and others) for nearly two decades. It is also involved in the trading of products like ceiling fans, compact fluorescent lamps (CFL) and LED lights which are outsourced and produced under its own brand name. The wide range of products the company deals in provides it with a well-diversified revenue base.

Diversified customer profile with comprehensive distribution network - The company has a wide distribution network in Rajasthan, Uttar Pradesh, Madhya Pradesh and other states with around 12 depots across the country. The depot in each location caters to all the requirements of that particular region. The company has a wide distribution network of around 4,000 dealers (2,500 in VSCL and 1,500 in VMPL) across India under the brand name of Veto and Vimal Power.

The company's customer profile is well diversified with the top five customers contributing 5-10% of the revenue over the past fiscals. The acquisition of VMPL in FY2021 has given the company access to new markets in regions such as Uttar Pradesh, Delhi NCR and Maharashtra and some parts of South India.

Comfortable capital structure and coverage indicators- The company has a comfortable capital structure with a healthy tangible net worth of Rs. 232.9 crore as on March 31, 2024, and limited reliance on external debt. The company has comfortable debt coverage metrics with interest coverage ratio of 7.0 times and DSCR of 5.0 times in FY2024. ICRA notes that the company's operations are working capital-intensive and any incremental requirement of external debt in the form of working capital borrowings or unsecured loans may negatively impact its debt coverage indicators.

Credit challenges

Intense competition resulting in modest scale of operations- VMPL is a moderate player in the highly fragmented and competitive cable industry with revenue in the range of Rs. 65-70 crore over the past five fiscals. The company faces stiff competition from both organised and unorganised players supplying wires and cables, which limits its pricing flexibility and bargaining power with customers, exerting pressure on its revenues and margins. Further, the company faces competition from peers and contract manufacturers for the branded players. Nevertheless, the access to new markets from being part of the Veto Group coupled with the wide distribution network of the company is likely to support the revenue growth in the near term.

Moderate financial risk profile- VMPL's total debt levels remained moderately high at Rs. 24.6 crore as on March 31, 2024 comprising loans from parent company (VSCL), directors and working capital borrowings from bank. As a result, the gearing was 1.1 times and TD/OPBDITA was 4.5 times at the end of FY2024. The debt coverage metrics are also moderate with an interest coverage ratio of 2.3 times for FY2024. However, at VSCL's consolidated level, the capital structure remains comfortable due to healthy net worth and limited external debt, thus providing comfort to some extent. Nevertheless, ICRA notes that the company's operations are highly working capital intensive in nature and any scale-up in the business operations will result in an incremental requirement of external debt in the form of working capital borrowings or unsecured loans which may negatively impact its debt coverage indicators.

Working capital-intensive operations- VMPL sells its products mainly through dealers/distributors and extends a credit period of around three-four months, as per the industry norms. Additionally, the due to the nature of business the company needs to maintain high inventory levels, resulting in high working capital intensity of the business operations. The working capital intensity stood at 65.2% in FY2024 which is expected to improve going forward as the company is focusing on improving its working capital cycle.

Liquidity position: Adequate

VMPL's liquidity position is adequate, supported by free cash balance of ~Rs. 0.5 crore as on March 31, 2024. VMPL has limited repayment obligations lined up over the medium term with no major capex plans, thus supporting its overall liquidity position. The company's liquidity position is expected to remain adequate on the back of moderate accruals from the business.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in the revenue and profitability margins coupled with an improved working capital management. Also, an improvement in the credit profile of its parent, Veto Switchgears and Cables Limited (VSCL), could be a positive factor.

Negative factors – The rating could be downgraded if there is a significant decline in revenue or profitability, or if the company undertakes a large debt-funded capex, or if the working capital cycle is elongated weakening VMPL's credit profile. The credit profile will also be impacted if the linkage with its parent, VSCL, weakens, or if the TOL/TNW is over 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Veto Switchgears and Cables Limited (VSCL); ICRA expects VSCL (rated [ICRA]BBB+(Stable)/[ICRA]A2) to be willing to extend financial support to VMPL, should there be a need, given the strategic importance it holds for the Group
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Vankon Modular Private Limited (VMPL), incorporated in May 2015, manufactures electrical accessories like switches, sockets, switch boards, holders, modular plates, regulators, miniature circuit breaker (MCB). It also deals in other accessories like compact fluorescent lamps (CFL), LED lights and fans. The company has a wide distribution network with more than 1,500 dealers and distributors with market presence in Uttar Pradesh, Delhi NCR, Rajasthan and Maharashtra. The company has its manufacturing unit spread across 2,000 square feet at Vasai, Mumbai. Veto Switchgears and Cables Limited (VSCL) acquired a 46.0% stake in Vankon Modular Private Limited (VMPL) in November 2020, which was increased to 95.5% in February 2021. Both VSCL and VMPL operate under the same management with an integrated approach towards all the operations.

Key financial indicators

Vankon Modular Private Limited (standalone)	FY2023	FY2024*
Operating income	65.6	67.6
PAT	4.6	2.5
OPBDIT/OI	8.6%	8.2%
PAT/OI	7.0%	3.7%
Total outside liabilities/Tangible net worth (times)	1.7	1.8
Total debt/OPBDIT (times)	2.5	4.5
Interest coverage (times)	2.5	2.3

Source: Company, ICRA Research; *Provisional; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount (Rs crore)	rated Sep 11, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	10.00	[ICRA]BB+ (Stable)	30-JUN-2023	[ICRA]B B+ (Stable)	01-APR-2022	[ICRA]B B+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund based- Cash Credit	-	-	-	10.00	[ICRA]BB+ (Stable)

Source: Vankon Modular Private Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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Branches



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